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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 005490

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TAGS: [PREL](#) [PGOV](#) [EPET](#) [ENRG](#) [RU](#) [JA](#)
SUBJECT: JAPAN QUESTIONS RUSSIAN MOTIVES REGARDING
SAKHALIN-2 ENERGY PROJECT DECISION

Classified By: Acting Political Minister Counselor Carol Reynolds. Reasons 1.4 (B) (D)

11. (C) Summary. MOFA and Russian Embassy officials provided alternative interpretations of Russia's July 18 decision to revoke approval of a key environmental study on the Sakhalin-2 energy project, which has effectively stopped progress on the joint venture. Russia's motives for rescinding the 2003 order remain unclear to the Japanese, who strongly doubt Moscow's official explanation about environmental concerns. However, Russian embassy diplomats told us categorically that project "was not closed." End Summary.

Russia Rescinds Order

12. (C) On September 22, MOFA European Affairs Russia Division Principal Deputy Director Kazuhiko Nakamura and Russian Embassy First Secretary Alexey Ovchinnikov updated Embassy Political Officer on the status of the Sakhalin-2 energy project. Referring to Japanese and other media reports that have provided varying accounts of the Russian action, Nakamura stated that Japanese government officials had confirmed as "fact" that the Russian Ministry of Natural Resources had decided to cancel its own July 2003 order approving the national environmental review of the Sakhalin-2 project. The ministry's original approval of the environmental study had been a necessary precondition to launch the energy project, he added. Japanese ambassador Saito received the news during a September 18 meeting with Russian natural resources minister Tortonov shortly after Russia's public announcement, according to Nakamura.

Moscow's Motives Unclear

13. (C) Russia's motives for rescinding the 2003 order remained unclear, Nakamura said. During the September 18 meeting with Saito, Tortonov claimed that the Sakhalin-2 project had "caused environmental damage not in conformity

with Russia's environmental law." Nakamura noted, however, that MOFA is aware of rumors circulating in Moscow that Russian business and government officials have begun to pressure Sakhalin Energy for terms more favorable to Russian commercial interests. Those rumors include reports that: 1) GASPROM is attempting to increase its share in the project, and 2) "high-ranking" officials opposed to the SPA regime, which they believe President Yeltsin established during the 1980's under terms favorable to foreign investors, hope to revise the regime in their favor. Japan officials "are not sure which rumor is true," Nakamura added.

14. (C) Japan continues to meet with Sakhalin Energy representatives, as well as Mitsubishi and Mitsui officials, and UK and Dutch government officials in Moscow and Tokyo to resolve the issue. Nakamura said that the government of Japan wanted to promote direct consultations between Sakhalin Energy Company representatives and officials from the natural resources ministry.

Sakhalin-2 Not Closed

15. (C) Russian embassy diplomat Ovchinnov concurred that Moscow officials were concerned about the Sakhalin's project's impact on the environment, but stated categorically that project "was not closed." Referring to the environmental concerns that had been raised during the construction of the oil pipeline in Alaska, he argued that energy projects of this nature often run afoul of conservation efforts. Russian officials will now undertake to determine the appropriate "legal procedures that Japan

TOKYO 00005490 002 OF 002

will follow" to put the project back on track, Ovchinnov opined.
SCHIEFFER